

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Imlay City	County Lapeer
Fiscal Year End June 30, 2006	Opinion Date August 24, 2006	Date Audit Report Submitted to State October 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None required.	
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot		City Saginaw	State MI
		Zip 48605	
Authorizing CPA Signature 		Printed Name Gerald Desloover	License Number 1101007126

*City of Imlay City  
Imlay City, Michigan*



**Financial Statements**

**For the Year Ended June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# CITY OF IMLAY CITY

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

August 24, 2006

To the City Commission  
City of Imlay City  
Imlay City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **City of Imlay City**, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **City of Imlay City**, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major Streets, and Lamb Steele Governmental Funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *City of Imlay City's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The script is cursive and fluid, with the first name "Lehmann" and last name "Lohman" clearly distinguishable.

## CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the City of Imlay City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The City's total net assets related to governmental activities are reported as \$7,375,640 for the fiscal year ended June 30, 2006, compared to \$7,161,747 last fiscal year.
- The total cost of all of the City's programs, including governmental activities and business-type activities was \$4.6 million.
- Total net assets increased \$294,905.

### **Overview of the Financial Statements**

This annual report consists of a series of financial statements. The first two statements, the *Statement of Net Assets* and the *Statement of Activities*, provide information about the activities of the City of Imlay City as a whole and present a longer-term view of the City's finances. The remaining statements, including governmental funds, proprietary funds, and fiduciary funds focus on how City services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City of Imlay City's operations in more detail than the government-wide financial statements.

The financial statements include notes that explain and provide more detailed data about some of the information found in the financial statements.

In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental and internal service funds, and the component unit each of which are added together and presented in single columns in the basic financial statements.

### **Government-wide Statements**

The government-wide statements report information about the City of Imlay City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's

## CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the change in the difference between the City's assets and liabilities. This change in net assets is an indicator of whether the City's financial health is improving or deteriorating. In order to assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads and other infrastructure.

The government-wide financial statements of the City of Imlay City are divided into two categories:

- Governmental activities – Most of the City's basic services are included here, such as police, fire, public works, parks and recreation, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.
- Business-type activities – The City charges fees to customers to help cover the cost of certain services it provides. The City's business-type activities include water and sanitary sewer.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City of Imlay City has two types of funds:

- Governmental funds – Most of the City's basic services are included in governmental funds, which focus on how cash, and other financial assets that can readily be converted to cash, flow in and out. The funds also show the balances left at year end that are available for spending.

The governmental fund statements focus on a short-term view rather than the long-term focus of the government-wide statements, so additional information is provided after the governmental fund statements that explain the relationship or differences between the fund and government-wide statements.

- Proprietary funds – Proprietary funds are used to report services where the City charges customers a fee for services rendered. Proprietary funds provide both long and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.



# CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

- Enterprise funds and business-type activities are the same, but the fund statements provide more detail and additional information such as cash flows.
- Internal Service funds are used to report activities that provide supplies and services for the City's other programs. Examples of internal service funds would be Motor Equipment and Information Technology.
- Fiduciary funds – Fiduciary funds are used to report monies that are collected on behalf of other agencies. This would account for County, School, and Intermediate School taxes.

## **The City of Imlay City as a Whole**

The following table shows the net assets as of June 30, 2006.

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Assets</b>						
Current assets	\$3,990,796	\$5,760,987	\$1,849,655	\$1,618,503	\$5,840,451	\$7,379,490
Noncurrent assets	5,625,675	4,274,819	9,741,972	10,093,644	15,367,647	14,368,463
<b>Total assets</b>	<b>9,616,471</b>	<b>10,035,806</b>	<b>11,591,627</b>	<b>11,712,147</b>	<b>21,208,098</b>	<b>21,747,953</b>
<b>Liabilities</b>						
Current liabilities	213,025	336,181	266,858	263,390	479,883	599,571
Long-term liabilities	2,027,806	2,549,133	3,705,000	3,910,000	5,732,806	6,459,133
<b>Total liabilities</b>	<b>2,240,831</b>	<b>2,885,314</b>	<b>3,971,858</b>	<b>4,173,390</b>	<b>6,212,689</b>	<b>7,058,704</b>
<b>Net assets</b>						
Invested in capital assets – Net of related debt	3,850,108	3,988,737	5,831,972	5,983,644	9,682,080	9,972,381
Restricted	364,821	547,475	-	436,164	364,821	983,639
Unrestricted	3,160,711	2,614,280	1,787,797	1,118,949	4,948,508	3,733,229
<b>Total net assets</b>	<b>\$7,375,640</b>	<b>\$7,150,492</b>	<b>\$7,619,769</b>	<b>\$7,538,757</b>	<b>\$14,995,409</b>	<b>\$14,689,249</b>

## CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City's combined total net assets for the fiscal year ended June 30, 2006 is \$14.9 million. Business-type activities comprise \$7.6 and governmental activities make up \$7.3 of the total net assets.

Combined unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is reported as \$4.9 million, of which \$3.1 million is the amount of unrestricted net assets reported for the City of Imlay City's governmental activities.

**CITY OF IMLAY CITY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table shows the changes in net assets during the entire current year:

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$334,990	\$464,188	\$1,447,561	\$1,495,034	\$1,782,551	\$1,959,222
Operating grants & contributions	673,251	380,750	-	-	673,251	380,750
Capital grants & contributions	76,168	578,189	-	-	76,168	578,189
General revenues:						
Property taxes	1,387,526	1,246,539	416,394	493,315	1,803,920	1,739,854
Grants and contributions not restricted to specific programs	416,153	420,447	-	-	416,153	420,447
Unrestricted investment earnings	116,060	83,767	42,832	30,848	158,892	114,615
Miscellaneous	4,221	30,620	2,334	-	6,555	30,620
Transfers	92,058	34,985	(92,058)	(34,985)	-	-
<b>Total revenues and transfers</b>	<b>3,100,427</b>	<b>3,239,485</b>	<b>1,817,063</b>	<b>1,984,212</b>	<b>4,917,490</b>	<b>5,223,697</b>
<b>Expenses:</b>						
Legislative	344,579	-	-	-	344,579	-
General government						
	483,143	257,957	-	-	483,143	257,957
Public safety	1,013,182	970,772	-	-	1,013,182	970,772
Public works	810,211	794,674	-	-	810,211	794,674
Culture and recreation	176,803	114,447	-	-	176,803	114,447
Interest	58,616	121,237	-	-	58,616	121,237
Water/sewer	-	-	1,736,051	1,839,468	1,736,051	1,839,468
<b>Total expenses</b>	<b>2,886,534</b>	<b>2,259,087</b>	<b>1,736,051</b>	<b>1,839,468</b>	<b>4,622,585</b>	<b>4,098,555</b>
<b>Increase in net assets</b>	<b>213,893</b>	<b>980,398</b>	<b>81,012</b>	<b>144,744</b>	<b>294,905</b>	<b>1,125,142</b>

# CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Total</u></b>	
<b>Net assets, beginning of year, as restated</b>	7,161,747	6,170,094	7,538,757	7,394,013	14,700,504	13,564,107
<b>Net assets, end of year</b>	\$7,375,640	\$7,150,492	\$7,619,769	\$7,538,757	\$14,995,409	\$14,689,249

## **Governmental Activities**

The City of Imlay City's total governmental revenue is reported at \$3,100,427, a decrease of \$139,058 from the prior year. This was primarily attributed to a reduction in Capital Grants (Federal, State Grants).

Expenses increased by \$627,447 from the prior year. \$114,050 is attributed to MSHDA Rental Rehabilitation expenses which were reimbursed by grant funds. Reimbursements to city residents for prior year prepaid Bigelow drain assessments amounted to \$57,764. The Polly Ann Trail project was completed in 2006. Expenditures of \$79,000 are reflected for this project, with a corresponding amount coming from the MDNR for reimbursement.

## **Business-type Activities**

The City of Imlay City's business-type activities consist of water and sanitary sewer. Water services are provided to City residents through the Detroit water system. Sewer services are provided through the City's own collection and treatment system. There was no increase in charges for the services in 2006 as the City of Detroit did not increase its rates to the City of Imlay.

Program revenues for business-type activities were \$1,447,561. Items include water service charges and sanitary sewer service charges.

## **The City of Imlay City's Funds**

Analysis of the City of Imlay City's major funds begins following the government wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Imlay City as a whole. Funds are created to help manage money for specific purposes, as well as to show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

## CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Imlay City's major governmental funds for 2006 include the General Fund, Major Streets, Lamb/Steele and 2005 Capital Projects, while the major enterprise fund is the Water and Sanitary Sewer Fund.

General Fund pays for most of the City of Imlay City's governmental services.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Commission amended the budget to take into account events during the year. Revenues for the General Fund amounted to \$31,033 less than budgeted. Expenditures for the fiscal year came in \$234,949 less than the budgeted amount. Overall expenses for the City were 8.8 percent less than the budgeted amount due to a conservative spending policy.

### **Capital Asset and Debt Administration**

At the end of 2006, the City of Imlay City had \$9.6 million invested net of related debt in a broad range of capital assets including land, buildings, police and fire equipment, water and sewer lines, roads, sidewalks, and other infrastructure. Total governmental activities capital assets were \$5,625,675. Business-type activities capital assets amounted to \$9,741,972. Additional information about the City's capital assets is presented in Notes to the Financial Statements (I and III C.).

The City of Imlay City's debt rating remains at BBB+ by Standard and Poors. The City of Imlay City's indebtedness totaled \$2,027,806 at June 30, 2006. Additional information about the City's long-term debt can be found in Note III E. of the financial statements.

### **Current Economic Events**

The City of Imlay City's budget for fiscal year 2007 calls for a millage rate of 17.35. These rates have remained the same or lower since July 1, 1996. Property taxes make up approximately 59.8 percent of our General Fund budget. The budget was prepared using conservative measures to balance revenue and expenditures without using fund balance. The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or five percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Imlay City will grow less than inflation before considering new property additions. With conservative budget forecasting of revenues and realistic expenditure estimates, we hope to limit the use of fund balance.

## CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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State shared revenue payments are being forecasted conservatively. Based on advice in previous audit years, the 2007 budget has been prepared forecasting a 20% reduction in State shared revenues. The intent is to totally eliminate the City's dependence on these revenues over a five-year period.

The City purchases its water services from the City of Detroit. Historically, we have passed along the full water rate increases to our customers. The City's rate structure enables us to provide water service to our citizens as well as pay for operations, maintenance and improvements to the system.

### **Contacting the City of Imlay City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City of Imlay City's financial condition. If you have questions about this report or need additional information, we welcome you to contact the administrative offices at City Hall, 150 North Main Street, Imlay City, Michigan 48444.

Additional information can be obtained at the City of Imlay City's web site, [www.imlaycity.org](http://www.imlaycity.org)

**CITY OF IMLAY CITY**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

	Governmental Activities	Business-type Activities	Total	Component Unit
<b>Assets</b>				
Cash and cash equivalents	\$ 617,304	\$ 72,274	\$ 689,578	\$ 220,910
Investments	3,180,044	1,316,369	4,496,413	140,916
Receivables	184,561	134,574	319,135	15
Prepays and other assets	8,887	53,172	62,059	-
Restricted assets - cash and cash equivalents	-	273,266	273,266	-
Capital assets, net				
Assets not being depreciated	1,808,668	55,798	1,864,466	-
Assets being depreciated	3,817,007	9,686,174	13,503,181	720,409
<b>Total assets</b>	<b>9,616,471</b>	<b>11,591,627</b>	<b>21,208,098</b>	<b>1,082,250</b>
<b>Liabilities</b>				
Accounts payable	155,106	52,673	207,779	6,186
Deposits	57,919	9,185	67,104	-
Non-current liabilities:				
Due within one year	334,907	205,000	539,907	63,798
Due in more than one year	1,692,899	3,705,000	5,397,899	656,611
<b>Total liabilities</b>	<b>2,240,831</b>	<b>3,971,858</b>	<b>6,212,689</b>	<b>726,595</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	3,850,108	5,831,972	9,682,080	-
Restricted for:				
Capital projects	364,821	-	364,821	-
Unrestricted	3,160,711	1,787,797	4,948,508	355,655
<b>Total net assets</b>	<b>\$ 7,375,640</b>	<b>\$ 7,619,769</b>	<b>\$ 14,995,409</b>	<b>\$ 355,655</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 344,579	\$ -	\$ -	\$ -	\$ (344,579)
General government	483,143	145,185	354,962	-	17,004
Public safety	1,013,182	60,489	51,605	-	(901,088)
Public works	810,211	107,524	266,684	76,168	(359,835)
Culture and recreation	176,803	21,792	-	-	(155,011)
Interest on long-term debt	58,616	-	-	-	(58,616)
Total governmental activities	2,886,534	334,990	673,251	76,168	(1,802,125)
Business-type activities:					
Water / Sewer	1,736,051	1,447,561	-	-	(288,490)
Total primary government	<u>\$ 4,622,585</u>	<u>\$ 1,782,551</u>	<u>\$ 673,251</u>	<u>\$ 76,168</u>	<u>\$ (2,090,615)</u>
Component unit					
Downtown Development Authority	<u>\$ 233,197</u>	<u>\$ 573</u>	<u>\$ 107,402</u>	<u>\$ 71,552</u>	<u>\$ (53,670)</u>

continued...



# CITY OF IMLAY CITY

## STATEMENT OF ACTIVITIES (CONCLUDED)

**FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Governmental Activities	Business-type Activities	Total	Component Unit
Change in net assets				
Net (expense) revenue	\$ (1,802,125)	\$ (288,490)	\$ (2,090,615)	\$ (53,670)
General revenues:				
Property taxes	1,387,526	416,394	1,803,920	293,835
Grants and contributions not restricted to specific programs	416,153	-	416,153	-
Unrestricted investment earnings	116,060	42,832	158,892	10,806
Miscellaneous general revenues	4,221	2,334	6,555	-
Transfers - internal activities	92,058	(92,058)	-	-
Total general revenues	2,016,018	369,502	2,385,520	304,641
Change in net assets	213,893	81,012	294,905	250,971
Net assets, beginning of the year, as restated	7,161,747	7,538,757	14,700,504	104,684
Net assets, end of year	\$ 7,375,640	\$ 7,619,769	\$ 14,995,409	\$ 355,655

The accompanying notes are an integral part of these financial statements.

# CITY OF IMLAY CITY

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL	MAJOR STREETS	LAMB STEELE	2005 CAPITAL PROJECTS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 97,472	\$ -	\$ 3,495	\$ 427,026
Investments	1,223,749	346,006	1,369,896	-
Accounts receivable	26,602	-	769	-
Prepays	8,287	200	-	-
Due from other funds	38	-	-	-
Due from other governmental units	104,971	15,819	-	-
<b>TOTAL ASSETS</b>	<u>\$ 1,461,119</u>	<u>\$ 362,025</u>	<u>\$ 1,374,160</u>	<u>\$ 427,026</u>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 32,150	\$ -	\$ -	\$ 62,205
Deferred revenue	-	-	-	-
Deposits	57,919	-	-	-
Due to other funds	-	38	-	-
<b>TOTAL LIABILITIES</b>	<u>90,069</u>	<u>38</u>	<u>-</u>	<u>62,205</u>
<b>FUND EQUITY</b>				
Fund balances				
Reserved for:				
Capital projects	-	-	-	364,821
Debt service	-	-	-	-
Unreserved:				
Designated for:				
Industrial park loan	152,500	-	-	-
Pedestrian path match	150,000	-	-	-
Environmental remediation	50,000	-	-	-
Capital improvements	400,000	-	-	-
Undesignated, reported in:				
General fund	618,550	-	-	-
Special revenue funds	-	361,987	1,374,160	-
<b>TOTAL FUND EQUITY</b>	<u>1,371,050</u>	<u>361,987</u>	<u>1,374,160</u>	<u>364,821</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 1,461,119</u>	<u>\$ 362,025</u>	<u>\$ 1,374,160</u>	<u>\$ 427,026</u>

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	TOTALS
\$ 70,853	\$ 598,846
190,026	3,129,677
31,536	58,907
200	8,687
-	38
4,864	125,654
<u>\$ 297,479</u>	<u>\$ 3,921,809</u>

\$ 59,580	\$ 153,935
31,536	31,536
-	57,919
-	38
<u>91,116</u>	<u>243,428</u>

-	364,821
7	7
-	152,500
-	150,000
-	50,000
-	400,000
-	618,550
206,356	1,942,503
<u>206,363</u>	<u>3,678,381</u>
<u>\$ 297,479</u>	<u>\$ 3,921,809</u>

## CITY OF IMLAY CITY

### RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

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Fund balances - total governmental funds	\$ 3,678,381
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	7,240,224
Deduct - accumulated depreciation	(1,848,898)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues for loans receivable	31,536
---	--------

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct: long term debt	(1,755,578)
Deduct: compensated absences	(201,345)
Deduct: environmental remediation	(50,894)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service funds	282,214
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Net assets of governmental activities	<u>\$ 7,375,640</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL	MAJOR STREETS	LAMB STEELE	2005 CAPITAL PROJECTS
Revenues				
Taxes	\$ 1,387,526	\$ -	\$ -	\$ -
Intergovernmental revenue - State of Michigan				
Federal	208,821	43,108	-	-
State	576,468	208,267	-	-
Charges for services	288,063	-	-	-
Fines and forfeits	3,139	-	-	-
Licenses and permits	1,225	-	-	-
Drug forfeitures	-	-	-	-
Loan repayments	-	-	-	-
Rent	-	-	7,250	-
Interest	66,558	5,418	36,096	-
Other revenues	70,036	113	-	-
Total revenues	2,601,836	256,906	43,346	-
Expenditures				
Legislative	355,890	-	-	-
General government	422,758	-	-	-
Public safety	954,004	-	-	-
Public works	412,188	189,862	46,197	-
Recreation and cultural	220,116	-	-	-
Capital outlay	-	-	-	882,965
Debt service	34,209	-	-	-
Total expenditures	2,399,165	189,862	46,197	882,965
Revenues over (under) expenditures	202,671	67,044	(2,851)	(882,965)
Other financing sources (uses)				
Transfer in	19,500	-	-	-
Transfer out	(34,209)	(78,474)	(10,000)	-
Total other financing sources (uses)	(14,709)	(78,474)	(10,000)	-
Net changes in fund balances	187,962	(11,430)	(12,851)	(882,965)
Fund balances, beginning of year, as restated	1,183,088	373,417	1,387,011	1,247,786
Fund balances, end of year	\$ 1,371,050	\$ 361,987	\$ 1,374,160	\$ 364,821

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	TOTALS
\$ -	\$ 1,387,526
-	251,929
59,941	844,676
-	288,063
-	3,139
-	1,225
3,239	3,239
3,464	3,464
-	7,250
5,643	113,715
113	70,262
<u>72,400</u>	<u>2,974,488</u>
-	355,890
-	422,758
-	954,004
141,930	790,177
-	220,116
-	882,965
<u>198,295</u>	<u>232,504</u>
<u>340,225</u>	<u>3,858,414</u>
<u>(267,825)</u>	<u>(883,926)</u>
226,997	246,497
<u>(31,756)</u>	<u>(154,439)</u>
<u>195,241</u>	<u>92,058</u>
(72,584)	(791,868)
<u>278,947</u>	<u>4,470,249</u>
<u>\$ 206,363</u>	<u>\$ 3,678,381</u>

## CITY OF IMLAY CITY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

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Net change in fund balances - total governmental funds	\$ (791,868)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital additions	1,101,233
Deduct - depreciation expense	(179,991)

Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year

Add - decrease in deferred revenue	31,536
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	170,690
Deduct - change in compensated absences	(57,382)
Deduct - increase in environmental liability	(20,894)

Internal service funds are used by management to charge the costs of certain equipment usage to individual funds. The net revenue attributable to those funds is reported with governmental activities.

Add - interest revenue from governmental internal service fund	2,345
Deduct - net operating loss from governmental activities in internal service funds	(41,776)

Change in net assets of governmental activities	<u>\$ 213,893</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	OVER (UNDER) BUDGET
Revenues				
Taxes	\$ 1,370,069	\$ 1,393,850	\$ 1,387,526	\$ (6,324)
Federal	30,943	300,000	208,821	(91,179)
Intergovernmental revenue -				
State of Michigan	477,582	563,899	576,468	12,569
Charges for services	261,620	275,385	288,063	12,678
Fines and forfeits	3,150	3,150	3,139	(11)
Licenses and permits	50	600	1,225	625
Interest	30,000	40,000	66,558	26,558
Other revenues	50,095	55,985	70,036	14,051
Total revenues	<u>2,223,509</u>	<u>2,632,869</u>	<u>2,601,836</u>	<u>(31,033)</u>
Expenditures				
Legislative	168,290	577,448	355,890	(221,558)
General government	451,521	451,262	422,758	(28,504)
Public safety	973,896	959,067	954,004	(5,063)
Public works	544,400	396,865	412,188	15,323
Recreation and cultural	123,437	215,263	220,116	4,853
Debt service	34,209	34,209	34,209	-
Total expenditures	<u>2,295,753</u>	<u>2,634,114</u>	<u>2,399,165</u>	<u>(234,949)</u>
Revenues over (under) expenditures	<u>(72,244)</u>	<u>(1,245)</u>	<u>202,671</u>	<u>203,916</u>
Other financing sources (uses)				
Transfer in	19,500	19,500	19,500	-
Transfer out	<u>(34,850)</u>	<u>(34,209)</u>	<u>(34,209)</u>	<u>-</u>
Total other financing sources (uses)	<u>(15,350)</u>	<u>(14,709)</u>	<u>(14,709)</u>	<u>-</u>
Net changes in fund balance	(87,594)	(15,954)	187,962	203,916
Fund balance, beginning of year, as restated	<u>1,109,369</u>	<u>1,109,369</u>	<u>1,183,088</u>	<u>73,719</u>
Fund balance, end of year	<u>\$ 1,021,775</u>	<u>\$ 1,093,415</u>	<u>\$ 1,371,050</u>	<u>\$ 277,635</u>

The accompanying notes are an integral part of these financial statements.



# CITY OF IMLAY CITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL MAJOR STREETS

**FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	OVER (UNDER) BUDGET
Revenues				
Intergovernmental revenue				
Gas and weight tax	\$ 202,987	\$ 198,793	\$ 206,743	\$ 7,950
Federal grants	162,087	43,108	43,108	-
State grants	1,300	1,300	1,524	224
Interest	2,000	4,500	5,418	918
Other	-	55	113	58
Total revenues	<u>368,374</u>	<u>247,756</u>	<u>256,906</u>	<u>9,150</u>
Expenditures				
Routine maintenance	63,325	74,025	80,915	6,890
Winter maintenance	17,637	27,350	20,738	(6,612)
Administration	4,653	4,440	4,888	448
Traffic services	9,668	8,290	7,466	(824)
Construction	<u>555,027</u>	<u>87,516</u>	<u>75,855</u>	<u>(11,661)</u>
Total expenditures	<u>650,310</u>	<u>201,621</u>	<u>189,862</u>	<u>(11,759)</u>
Revenues over (under) expenditures	(281,936)	46,135	67,044	20,909
Other financing sources				
Transfer out	<u>(74,204)</u>	<u>(78,474)</u>	<u>(78,474)</u>	<u>-</u>
Net change in fund balance	(356,140)	(32,339)	(11,430)	20,909
Fund balance, beginning of year	<u>373,417</u>	<u>373,417</u>	<u>373,417</u>	<u>-</u>
Fund balance, end of year	<u>\$ 17,277</u>	<u>\$ 341,078</u>	<u>\$ 361,987</u>	<u>\$ 20,909</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF IMLAY CITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL LAMB STEELE

**FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	OVER (UNDER) BUDGET
Revenues				
Rent	\$ 7,500	\$ 7,500	\$ 7,250	\$ (250)
Interest	25,000	35,550	36,096	546
Total revenues	32,500	43,050	43,346	296
Expenditures				
Supplies	500	750	803	53
Contracted services	15,000	21,500	20,158	(1,342)
Insurance	-	637	637	-
Utilities	7,500	9,000	1,458	(7,542)
Repairs and maintenance	20,000	20,000	1,303	(18,697)
Miscellaneous	1,004	1,186	638	(548)
Contribution	4,500	4,500	4,500	-
Capital outlay	-	16,900	16,700	(200)
Total expenditures	48,504	74,473	46,197	(28,276)
Revenues over (under) expenditures	(16,004)	(31,423)	(2,851)	28,572
Other financing uses				
Transfer out	(7,500)	(7,500)	(10,000)	2,500
Net change in fund balance	(23,504)	(38,923)	(12,851)	26,072
Fund balance, beginning of year	1,387,011	1,387,011	1,387,011	-
Fund balance, end of year	<u>\$ 1,363,507</u>	<u>\$ 1,348,088</u>	<u>\$ 1,374,160</u>	<u>\$ 26,072</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

**JUNE 30, 2006**

	WATER / SEWER ENTERPRISE FUND	INTERNAL SERVICE FUNDS
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 72,274	\$ 18,458
Investments	1,316,369	50,367
Accounts receivable, net allowance of \$20,773	134,574	-
Prepays	1,911	200
Other assets	51,261	-
Restricted assets		
Bond reserves	273,266	-
Total current assets	<u>1,849,655</u>	<u>69,025</u>
Capital assets		
Nondepreciable capital assets	55,798	-
Depreciable capital assets	14,380,975	803,892
Less accumulated depreciation	<u>(4,694,801)</u>	<u>(569,543)</u>
Total capital assets	<u>9,741,972</u>	<u>234,349</u>
Total assets	<u>11,591,627</u>	<u>303,374</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	52,673	1,171
Current portion - bonds payable	205,000	-
Current portion - installment purchase	-	3,758
Customer deposits	9,185	-
Total current liabilities	<u>266,858</u>	<u>4,929</u>
Long-term liabilities		
Bonds payable	3,705,000	-
Installment purchase	-	16,231
Total long-term liabilities	<u>3,705,000</u>	<u>16,231</u>
Total liabilities	<u>3,971,858</u>	<u>21,160</u>
Net Assets		
Invested in capital assets, net of related debt	5,831,972	214,360
Unrestricted	<u>1,787,797</u>	<u>67,854</u>
Total Net Assets	<u>\$ 7,619,769</u>	<u>\$ 282,214</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**

**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND TYPES**

**FOR THE YEAR ENDED JUNE 30, 2006**

	WATER / SEWER ENTERPRISE FUND	INTERNAL SERVICE FUNDS
Operating revenues		
Charges for services	1,347,534	\$ 106,398
Tap-in fees	83,499	-
Reimbursements	8,941	-
Rental income	7,587	-
Miscellaneous	2,334	-
	<u>1,449,895</u>	<u>106,398</u>
Total operating revenues		
Operating expenses		
Wages and benefits	328,310	48,706
Water purchases	507,651	-
Utilities	75,179	-
Equipment rental	10,648	-
Gas and oil	1,389	11,963
Operating supplies	28,979	4,999
Telephone	5,232	-
Transportation and conferences	1,125	-
Miscellaneous	21,353	1,089
Depreciation	351,065	42,116
Repairs & maintenance	22,201	12,974
Insurance	20,289	26,327
Bad debt expense	20,773	-
Contracted services	153,646	-
	<u>1,547,840</u>	<u>148,174</u>
Total operating expenses		
Operating income (loss)	<u>(97,945)</u>	<u>(41,776)</u>
Nonoperating revenues (expenses)		
Property taxes	416,394	-
Interest revenue	42,832	2,345
Interest expense	(188,211)	-
	<u>271,015</u>	<u>2,345</u>
Total non-operating revenues (expenses)		
Income (loss) before transfers	173,070	(39,431)
Transfer out	(92,058)	-
Change in net assets	81,012	(39,431)
Net assets, beginning of year	<u>7,538,757</u>	<u>321,645</u>
Net assets, end of year	<u>\$ 7,619,769</u>	<u>\$ 282,214</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF IMLAY CITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	WATER / SEWER ENTERPRISE FUND	INTERNAL SERVICE FUNDS
Cash flows from operating activities		
Cash received from customers	\$ 1,500,610	\$ -
Cash received from interfund services provided	-	106,398
Cash payments to suppliers for goods and services	(866,211)	(57,501)
Cash payments to employees for services	(328,310)	(48,706)
Net cash provided by (used in) by operating activities	<u>306,089</u>	<u>191</u>
Cash from capital and related financing activities		
Interest on debt	(188,211)	-
Principal payments on debt	(200,000)	-
Acquisition of capital assets	-	(44,230)
Proceeds from installment purchase agreement	-	19,989
Net cash (used in) capital and related activities	<u>(388,211)</u>	<u>(24,241)</u>
Cash from noncapital and related financing activities		
Property taxes	416,394	-
Transfers out	(92,058)	-
Net cash provided by (used in) noncapital related activities	<u>324,336</u>	<u>-</u>
Cash flows from investing activities		
Purchase of investments	-	29,788
Sale of investments	(257,606)	-
Interest on investments	42,832	2,345
Net cash provided by (used in) investing activities	<u>(214,774)</u>	<u>32,133</u>
Net increase (decrease) in cash and cash equivalents	27,440	8,083
Cash and cash equivalents, beginning of year	<u>318,100</u>	<u>10,375</u>
Cash and cash equivalents, end of year	<u><u>\$ 345,540</u></u>	<u><u>\$ 18,458</u></u>
Non-cash investing, capital and financing transactions		
All dividends and interest income were immediately reinvested in the cash management funds		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (97,945)	\$ (41,776)
Adjustments to reconcile operating income (loss)		
to net cash provided by (used in) operating activities:		
Depreciation	351,065	42,116
Changes in operating assets and liabilities		
which provided (used) cash:		
Accounts receivable	50,715	-
Prepaid expenses	(1,911)	(200)
Other assets	5,697	-
Accounts payable	(614)	51
Customer deposits	(918)	-
Net cash provided by (used in) operating activities	<u><u>\$ 306,089</u></u>	<u><u>\$ 191</u></u>
The accompanying notes are an integral part of these financial statements.		

**CITY OF IMLAY CITY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2006**

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	<u>AGENCY FUND</u>
ASSETS	
Cash and cash equivalents	<u>\$         6,759</u>
LIABILITIES	
Due to other governmental units	<u>\$         6,759</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Imlay City, Michigan, (the “City”) conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

#### **REPORTING ENTITY**

The City is organized under Michigan’s Comprehensive Home Rule City Act. A seven member City Commission is the governing body elected by the community at large. The Commission appoints a City Manager to administer the affairs of the City.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component unit. The component unit discussed below is included in the City’s reporting entity because it is an entity for which the City is considered to financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

#### **Discretely Presented Component Unit**

*Downtown Development Authority (DDA)* – The City appoints a voting majority and is able to impose its will on the DDA. It is responsible for compliance with federal grants received in conjunction with the DDA’s projects. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the DDA has been discretely presented. The DDA does not issue any other formal financial statements except as contained in the City of Imlay City’s Annual Financial Report.

#### **Joint Operations**

*Lapeer County Emergency Medical Service (the “Authority”)* – The City is a member of the Authority, a joint venture that operates under the Urban Corporation Act of 1967. Various local units of government within Lapeer County have elected to provide ambulance services to residents within their area by joining the Authority. Each local unit appoints one individual to serve on the Board of Directors. The Authority has locations in Lapeer, North Branch and Imlay City. During the year ended June 30, 2006, the City contributed approximately \$11,000 toward the Authority’s operations. The City’s interest in net assets of the Authority is not significant.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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As a result of the financial difficulties incurred by the Authority, the City maybe required to make additional contributions in future periods to sustain the Authority's operations. The amount and timing of the City's contributions, if any, are not known at this time.

Complete financial statements for the Authority can be obtained from Lapeer County Emergency Medical Service, 3056 Davison Road, Suite 1, Lapeer, Michigan 48446.

### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for Agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the revenue and the related operation and maintenance of the major street system.

The *Lamb Steele fund* accounts for the revenue and the related operation and maintenance of the Lamb Steele building.

The *2005 Capital Projects fund* accounts for the expenditures related to the 2005 general obligation bonds.

The government reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the government's water distribution and sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *internal service funds* account for the equipment rental and insurance services provided to other departments or agencies of the government on a cost reimbursement basis.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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*Agency funds* are used to account for the assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognize as operating revenues the portion of tap-in fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

# **CITY OF IMLAY CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **ASSETS, LIABILITIES AND EQUITY**

#### ***Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

#### ***Receivables and payables***

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### ***Prepaid items***

Certain payments made to vendors are for services applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

#### ***Restricted assets***

Restricted assets are assets that have been set aside for debt service principal and interest, operations and maintenance and a bond reserve.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### *Capital assets*

Capital assets, which include property, plant, and equipment (the City owns infrastructure assets such as water and sewer systems and roads and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Public domain infrastructure	20
Water and sewer system	20-70
Treatment plant and water tower	40-50
Building improvements	50
Vehicles	3-5
Machinery and equipment	5-10

### *Compensated absences*

The City's policy allows employees to accumulate earned but unused vacation benefits. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Prior to June 1, the departments submit to the City Council a proposed departmental operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and means of financing them.
- Public hearings are conducted at the governmental center to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council throughout the operating year.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General fund and Special Revenue Funds.
- Budgets for the General and Special Revenue Funds are prepared on a modified accrual basis. This method is consistent with generally accepted accounting principles (GAAP).
- The legal level of control is at the function level for the General and Special Revenue Funds.
- Revisions that alter the total expenditures of any fund or total department expenditures in the General Fund must be approved by the City Council.

### **B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following funds had expenditures exceeding budgeted appropriations at the functional level, which is the City's legal level of budgetary control for the year ended June 30, 2006:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>GENERAL FUND</b>			
<b>General government</b>			
City Manager	\$ 112,088	\$ 112,981	\$ (893)
Rental inspection	21,078	21,163	(85)
Planning commission	36,490	46,493	(10,003)
<b>Public safety</b>			
Police department	776,430	789,974	(13,544)
<b>Public works</b>	396,865	412,188	(15,323)
<b>Recreational and cultural</b>	215,263	220,116	(4,853)
<b>Insurance</b>	10,500	11,500	(1,000)
<b>MAJOR STREETS</b>			
Routine maintenance	74,025	80,915	(6,890)
Administration	4,440	4,888	(448)
<b>LAMB STEELE</b>			
Supplies	750	803	(53)
<b>LOCAL STREETS</b>			
Routine maintenance	34,865	83,039	(48,174)
Administration	4,437	4,654	(217)
Construction	-	190	(190)
<b>INDUSTRIAL PARK REVOLVING LOAN</b>			
Public works	119	35,174	(35,055)

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

### III. DETAILED NOTES ON ALL FUNDS

#### A. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

	<u><b>Total</b></u>
Government-wide Financial Statement Captions:	
Primary government	
Cash and cash equivalents	\$ 689,578
Investments	4,496,413
Restricted assets - cash and cash equivalents	273,266
Component unit	
Cash and cash equivalents	220,910
Investments	140,916
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>6,759</u>
 Total	 <u><u>\$ 5,827,842</u></u>
 Notes to Financial Statements:	
Deposits	\$ 4,390,963
Investments	1,436,799
Cash on hand	<u>80</u>
 Total	 <u><u>\$ 5,827,842</u></u>

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments.

Investment	Maturity	Fair Value	Ratings
Federal National Mortgage Association	1/12/07	\$ 252,645	S&P AAA
Comerica MBIA	N/A	106,808	Fitch AAA / V1+
Federal Home Loan Bank	12/20/07	250,000	N/A
SB Money Fund	N/A	9,347	N/A
Commercial Paper	2/09/07	399,531	S&P A1+P1
Federal Home Loan Bank	11/15/06	402,023	S&P AAA
Dryfus Money Fund	N/A	<u>16,445</u>	N/A
		<u><u>\$ 1,436,799</u></u>	

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### **Investment and deposit risk:**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates on the City's investments are noted above.

*Credit risk.* The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit ratings on the City's investments are noted above.

*Custodial credit risk deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$3,464,412 of the City's bank balance of \$4,164,412 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the City's name.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified below. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the City's investments are in Federal National Mortgage Association, commercial paper, and Federal Home Loan. All investments held at year end are reported above.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.



**CITY OF IMLAY CITY**  
**NOTES TO FINANCIAL STATEMENTS**

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- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

**B. RECEIVABLES**

Receivables as of year end for the government's governmental and business-type activities in the aggregate, are as follows:

	<b>Governmental <u>Activities</u></b>	<b>Business-type <u>Activities</u></b>
Receivables:		
Accounts	\$ 27,371	\$ 155,347
Less: allowance for uncollectible accounts	-	(20,773)
Intergovernmental	125,654	-
Loans		
Due within one year	6,580	-
Due after one year	<u>24,956</u>	<u>-</u>
 Total receivables	 <u>\$ 184,561</u>	 <u>\$ 134,574</u>

**CITY OF IMLAY CITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**C. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006 was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Ending Balance</u></b>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 846,694	\$ 79,009	\$ -	\$ 925,703
Construction in progress	<u>435,891</u>	<u>958,820</u>	<u>(511,746)</u>	<u>882,965</u>
Total capital assets not being depreciated	<u>1,282,585</u>	<u>1,037,829</u>	<u>(511,746)</u>	<u>1,808,668</u>
Capital assets being depreciated:				
Land improvements	168,204	-	-	168,204
Roads and sidewalks	434,816	511,746	-	946,562
Infrastructure	450,000	-	-	450,000
Buildings and improvements	2,189,770	-	-	2,189,770
Vehicles	759,662	63,773	-	823,435
Machinery and equipment	<u>1,613,616</u>	<u>43,861</u>	<u>-</u>	<u>1,657,477</u>
Total capital assets being depreciated	<u>5,616,068</u>	<u>619,380</u>	<u>-</u>	<u>6,235,448</u>
Less accumulated depreciation				
Land improvements	(119,388)	(7,270)	-	(126,658)
Roads and sidewalks	(28,774)	(14,065)	-	(42,839)
Infrastructure	(22,500)	(22,500)	-	(45,000)
Buildings and improvements	(744,943)	(43,631)	-	(788,574)
Vehicles	(527,427)	(42,116)	-	(569,543)
Machinery and equipment	<u>(753,302)</u>	<u>(92,525)</u>	<u>-</u>	<u>(845,827)</u>
Total accumulated depreciation	<u>(2,196,334)</u>	<u>(222,107)</u>	<u>-</u>	<u>(2,418,441)</u>
Total capital assets being depreciated, net	<u>3,419,734</u>	<u>397,273</u>	<u>-</u>	<u>3,817,007</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 4,702,319</u></b>	<b><u>\$ 1,435,102</u></b>	<b><u>\$(511,746)</u></b>	<b><u>\$ 5,625,675</u></b>

**CITY OF IMLAY CITY**  
**NOTES TO FINANCIAL STATEMENTS**

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	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land and land rights	\$ 55,798	\$ -	\$ -	\$ 55,798
Capital assets being depreciated:				
Treatment plant	10,132,783	-	-	10,132,783
Water and sewer system	3,138,443	-	-	3,138,443
Equipment	173,223	-	-	173,223
Water tower	<u>936,526</u>	<u>-</u>	<u>-</u>	<u>936,526</u>
Total capital assets being depreciated	<u>14,380,975</u>	<u>-</u>	<u>-</u>	<u>14,380,975</u>
Less accumulated depreciation:				
Treatment plant	(2,895,868)	(243,700)	-	(3,139,568)
Water and sewer system	(1,178,224)	(76,766)	-	(1,254,990)
Equipment	(101,687)	(11,869)	-	(113,556)
Water tower	<u>(167,956)</u>	<u>(18,731)</u>	<u>-</u>	<u>(186,687)</u>
Total accumulated depreciation	<u>(4,343,735)</u>	<u>(351,066)</u>	<u>-</u>	<u>(4,694,801)</u>
Total capital assets being depreciated, net	<u>10,037,240</u>	<u>(351,066)</u>	<u>-</u>	<u>9,686,174</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 10,093,038</u></b>	<b><u>\$(351,066)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,741,972</u></b>

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 46,039
Public safety	77,027
Public works	35,574
Recreation and culture	21,351
Capital assets held by the government's internal funds are charged to various functions based on their usage of the assets	<u>42,116</u>

Total depreciation expense – governmental activities \$ 222,107

**Business-type activities:**

Water and Sewer	<u><u>\$ 351,066</u></u>
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**Construction commitments**

The City has entered into a construction contract for the Bigelow Drain project. As of June 30, 2006 the City has expended \$1,126,464 of the \$1,278,920 contracted amount. The estimated remaining amount left on the contract is \$152,456.

	<u><b>Beginning Balance</b></u>	<u><b>Increases</b></u>	<u><b>Decreases</b></u>	<u><b>Ending Balance</b></u>
<b>Discretely presented component unit</b>				
Capital assets being depreciated:				
Land improvements	\$ <u>-</u>	\$ <u>720,409</u>	\$ <u>-</u>	\$ <u>720,409</u>

**D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2006, is as follows:

<u><b>Due To</b></u>	<u><b>Due From</b></u>	<u><b>Total</b></u>
General Fund	<u>\$ 38</u>	<u>\$ 38</u>

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

The interfund receivable and payable for the City consist of an amount due to the General fund to eliminate a negative cash balance in the Major Streets Fund.

Transfer To:	Transfer From:					Total
	General	Major Streets	Lamb Steele	Nonmajor Govt	Enterprise	
General	\$ -	\$ -	\$ 10,000	\$ 2,000	\$ 7,500	\$ 19,500
Nonmajor Govt	34,850	78,474	-	29,115	84,558	226,997
Total	\$ 34,850	\$ 78,474	\$ 10,000	\$ 31,115	\$ 92,058	\$ 246,497

The interfund transfers are budgeted for operating expenditures, debt payments, and Act 51 revenues.

### E. LONG-TERM DEBT

Long-term obligations for the year ended June 30, 2006, were as follows:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Balance June 30, 2006</b>	<b>Due Within One Year</b>
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities:</b>					
General obligation bonds:					
1992 general obligation unlimited tax bonds, annual installments of \$25,000 to \$65,000 through September 2007, interest at 6.00- 6.15%.	\$ 190,000	\$ -	\$ (60,000)	\$ 130,000	\$ 65,000
2005 general obligation limited tax bonds, annual installments of \$55,000 to \$100,000 through February 2025, interest at 3.00-4.55%.	1,440,000	-	(60,000)	1,380,000	55,000
Installment purchase contracts:					
1999 State of Michigan Prospective Business and Industrial Park Loan, annual installments of \$19,679 through 2014.	167,528	-	(19,679)	147,849	19,679

**CITY OF IMLAY CITY**  
**NOTES TO FINANCIAL STATEMENTS**

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	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Balance June 30, 2006</b>	<b>Due Within One Year</b>
2004 Fire Truck commercial promissory note, annual installments of \$30,260 to \$33,380 through April 2009, interest at 2.45%.	\$ 128,740	\$ -	\$ (31,011)	\$ 97,729	\$ 31,792
Bobcat, 2006, annual installments of \$3,568 to \$4,376 through January 2010, interest at 3.09%.	-	19,989	-	19,989	3,758
Environmental remediation	30,000	20,894	-	50,894	50,894
Compensated absences	<u>143,963</u>	<u>166,166</u>	<u>(108,784)</u>	<u>201,345</u>	<u>108,784</u>
Total	<u>\$2,100,231</u>	<u>\$ 207,049</u>	<u>\$ (279,474)</u>	<u>\$ 2,027,806</u>	<u>\$ 334,907</u>

**Business-type activities:**

General obligation bonds:

2004 limited tax general obligation refunding bonds, annual installments of \$80,000 to \$370,000 through October 2015, interest at 2.00-3.90%.	\$1,610,000	\$ -	\$ (90,000)	\$1,520,000	\$ 90,000
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Revenue bonds:

1995 revenue bonds, annual installments of \$10,000 to \$60,000 through October 2015, interest at 5.30-5.90%.	510,000	-	(35,000)	475,000	35,000
2001 revenue bonds, annual installments of \$65,000 to \$180,000 through October 2021, interest at 4.375-5.60%	<u>1,990,000</u>	<u>-</u>	<u>(75,000)</u>	<u>1,915,000</u>	<u>80,000</u>
Total	<u>\$4,110,000</u>	<u>\$ -</u>	<u>\$ (200,000)</u>	<u>\$3,910,000</u>	<u>\$ 205,000</u>

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

### Primary Government

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The annual requirements to pay future principal and interest on the governmental installment contracts are as follows:

<b>Year ending June 30,</b>	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2007	\$ 175,229	\$ 66,661	\$ 205,000	\$ 175,284
2008	176,110	60,129	210,000	167,688
2009	112,053	55,271	210,000	159,473
2010	78,797	52,393	220,000	150,554
2011	83,924	50,341	225,000	140,912
2012-2016	374,454	214,150	1,915,000	506,251
2017-2021	395,000	139,760	745,000	157,662
2022-2025	<u>380,000</u>	<u>44,135</u>	<u>180,000</u>	<u>5,040</u>
Total	<u>\$ 1,775,567</u>	<u>\$ 682,840</u>	<u>\$ 3,910,000</u>	<u>\$ 1,462,864</u>

<b><u>Balance</u></b>		<b><u>Balance</u></b>	
<b><u>July 1,</u></b>		<b><u>June 30,</u></b>	<b><u>Due Within</u></b>
<b><u>2005</u></b>	<b><u>Additions (Reductions)</u></b>	<b><u>2006</u></b>	<b><u>One Year</u></b>

### COMPONENT UNIT

Note payable:

Historic Depot District  
Third Street Improvements  
Phase II, annual installments  
Of \$38,963 to \$87,810 through  
September 2015, interest at  
3.8%

<u>\$ -</u>	<u>\$720,409</u>	<u>\$ -</u>	<u>\$720,409</u>	<u>\$ 63,798</u>
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### Component Unit

Downtown Development Authority. The Downtown Development Authority has no general obligation bonds outstanding. The outstanding balance is a note payable the DDA used to finance the renovation of the Third Street Improvements Phase II.

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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The annual requirements to pay future principal and interest on the note payable are as follows:

<b><u>Year ending June 30,</u></b>	<b><u>Governmental Activities</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2007	\$ 63,798	\$ 28,896
2008	67,397	25,298
2009	69,931	22,763
2010	72,688	20,007
2011	75,488	17,206
2012-2016	<u>371,107</u>	<u>40,133</u>
Total	<u>\$ 720,409</u>	<u>\$ 154,303</u>

For the governmental activities, compensated absences and environmental liabilities are generally liquidated by the general fund.

During the June 30, 2005 fiscal year, the City issued \$1,600,000 in general obligation bonds with an average interest rate of 3.6%. The proceeds of these bonds were used to advanced refund \$1,500,000 of outstanding general obligation bonds with an average interest rate of 5.7%. The net proceeds of \$1,583,213 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Water and Sewer Fund. The advance refunding reduced total debt service payments over the next 9 years by approximately \$128,700, which represents an economic gain of approximately \$118,000. The balance of the defeased debt outstanding at June 30, 2006 was \$1,520,000.

### IV. OTHER INFORMATION

#### A. DEFINED BENEFIT PENSION PLAN

##### **Plan Description**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement system of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.



# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate is 11.90% of annual covered general payroll and 10.59% of annual covered police and fire payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

### **Annual Pension Cost**

For the year ended June 30, 2006, the City's annual pension cost of \$117,107 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 12.9% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

### **Three-Year Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/04	\$98,256	100%	\$0
6/30/05	120,747	100	0
6/30/06	117,107	100	0

### **Schedule of Funding Progress**

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u></b>	<b><u>Unfunded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll (b-a/c)</u></b>
12/31/03	\$2,539,567	\$3,167,250	\$627,683	80%	\$965,666	65%
12/31/04	2,785,044	3,582,651	797,607	78	998,647	80%
12/31/05	3,036,533	3,841,601	805,068	79	1,021,678	79%

# CITY OF IMLAY CITY

## NOTES TO FINANCIAL STATEMENTS

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### **B. PROPERTY TAXES**

City property taxes are attached as an enforceable lien on property as of July 1 and are due without penalty on or before July 31. Real property taxes not collected as of March 1 are turned over to Lapeer County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Property taxes levied in July of each year are recognized as revenue in that year.

The City acts as a collection agent for the State of Michigan, Lapeer County and the local school district.

Taxes collected on behalf of the school district, Lapeer County and the State of Michigan are turned over immediately following collection and are accounted for in the agency fund.

### **C. CONTINGENCIES AND COMMITMENTS**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

### **D. PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were necessary to increase fund balance in the general fund due to the additional recording of a receivable and adjustment to miscellaneous revenue and also to decrease the fund balance to adjust deposits payable.

Fund balance, beginning of the year	\$ 1,109,369
Understatement of accounts receivable	80,220
Understatement of revenue	2,552
Understatement of liabilities	<u>(9,053)</u>
Fund balance, beginning of the year, as restated	<u>\$ 1,183,088</u>

Prior period adjustments were necessary to increase net assets in the governmental activities due to the overstatement of capital assets and long term debt and the understatement of the effects as noted above.

Net assets, beginning of the year	\$ 7,150,492
Overstatement of capital assets	(767,361)
Overstatement of long term debt	704,897
Understatement from above	<u>73,719</u>
Net assets, beginning of the year, as restated	<u>\$ 7,161,747</u>

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# CITY OF IMLAY CITY

## GENERAL FUND SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Taxes				
Current property taxes	\$ 1,368,869	\$ 1,377,650	\$ 1,369,619	\$ (8,031)
Tax administration fees	-	15,000	16,599	1,599
Trailer park fees	1,200	1,200	1,308	108
Total taxes	1,370,069	1,393,850	1,387,526	(6,324)
Federal grants	30,943	300,000	208,821	(91,179)
Intergovernmental revenue - State of Michigan				
State grants	47,500	129,964	132,126	2,162
Sales tax	423,307	417,264	416,153	(1,111)
Metro act	2,600	12,501	24,020	11,519
Liquor license	4,175	4,170	4,169	(1)
Total intergovernmental revenue - State of Michigan	477,582	563,899	576,468	12,569
Charges for services				
Refuse collections	90,770	93,900	96,379	2,479
Swimming program	12,000	12,000	15,567	3,567
Snack shop	600	600	826	226
5K run registration fee	-	4,585	5,399	814
Zoning fees	17,500	15,000	18,787	3,787
Inspections	7,500	12,000	14,485	2,485
Fire protection	45,000	45,000	57,250	12,250
Street lighting	450	450	431	(19)
Administration	68,000	68,000	64,082	(3,918)
Miscellaneous charges	19,800	23,850	14,857	(8,993)
Total charges for services	261,620	275,385	288,063	12,678
Fines and forfeits	3,150	3,150	3,139	(11)
Licenses and permits	50	600	1,225	625
Other revenue				
Miscellaneous	7,000	6,200	9,156	2,956
Francise fees	23,055	22,500	22,946	446
Rent	16,540	16,785	19,735	2,950
Reimbursements	2,500	6,500	14,204	7,704
Sale of capital assets	1,000	4,000	3,995	(5)
Total other revenue	50,095	55,985	70,036	14,051
Interest income	30,000	40,000	66,558	26,558
Other financing sources				
Transfer in	19,500	19,500	19,500	-
Total revenues	\$ 2,243,009	\$ 2,652,369	\$ 2,621,336	\$ (31,033)

# CITY OF IMLAY CITY

## GENERAL FUND SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Legislative	\$ 168,290	\$ 577,448	\$ 355,890	\$ (221,558)
General government				
City Manager	110,690	112,088	112,981	893
Assessor	69,550	62,300	62,247	(53)
Clerk/Treasurer	162,643	164,160	158,325	(5,835)
Building maintenance	31,495	44,646	10,049	(34,597)
Rental inspection	17,328	21,078	21,163	85
Planning commission	51,815	36,490	46,493	10,003
Total general government	443,521	440,762	411,258	(29,504)
Public safety				
Police department	790,775	776,430	789,974	13,544
Fire department	176,014	175,530	156,923	(18,607)
Lapeer County EMS	7,107	7,107	7,107	-
Total public safety	973,896	959,067	954,004	(5,063)
Public works	544,400	396,865	412,188	15,323
Recreation and cultural	123,437	215,263	220,116	4,853
Insurance	8,000	10,500	11,500	1,000
Debt service	34,209	34,209	34,209	-
Total expenditures	2,295,753	2,634,114	2,399,165	(234,949)
Other financing uses - transfer out	34,850	34,209	34,209	-
Total expenditures and financing uses	\$ 2,330,603	\$ 2,668,323	\$ 2,433,374	\$ (234,949)

# CITY OF IMLAY CITY

## GENERAL FUND

### DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Legislative				
Wages and benefits	\$ 26,515	\$ 26,416	\$ 26,883	\$ 467
Office supplies	200	500	333	(167)
Audit and accounting	14,575	14,575	11,685	(2,890)
Contractual servcies	20,000	37,221	44,340	7,119
Legal services	20,000	22,000	16,855	(5,145)
Transportation and conferences	500	4,357	4,143	(214)
Community promotion	2,000	2,000	2,441	441
Special assessments	-	57,764	57,764	-
MISHDA	-	300,000	145,051	(154,949)
Contributions to Lapeer Development Corp.	7,500	7,500	7,500	-
Capital outlay	500	11,900	11,311	(589)
Other	76,500	93,215	27,584	(65,631)
Total legislative	168,290	577,448	355,890	(221,558)
General government				
City Manager				
Wages and benefits	98,640	99,688	103,044	3,356
Office supplies	250	350	375	25
Contractual servcies	300	300	358	58
Transportation and conferences	4,000	4,000	3,591	(409)
Telephone	1,800	1,550	1,834	284
Car allowance	3,600	3,600	3,600	-
Capital outlay	2,100	2,600	179	(2,421)
Total city manager	110,690	112,088	112,981	893
Assessor				
Wages and benefits	700	700	667	(33)
Office supplies	800	1,000	1,333	333
Contractual servcies	65,000	58,000	59,091	1,091
Telephone	1,000	900	903	3
Printing and publishing	450	100	33	(67)
Other	1,600	1,600	220	(1,380)
Total assessor	69,550	62,300	62,247	(53)
Clerk/Treasurer				
Wages and benefits	125,543	125,010	125,064	54
Office supplies	4,500	6,250	6,461	211
Postage	7,500	8,000	7,833	(167)
Contractual services	8,100	7,500	8,601	1,101
Telephone	2,000	1,800	1,671	(129)
Transportation and conferences	3,000	3,000	3,624	624
Printing and publishing	2,000	2,000	2,910	910
Capital outlay	10,000	10,600	2,161	(8,439)
Total clerk/treasurer	162,643	164,160	158,325	(5,835)

# CITY OF IMLAY CITY

## GENERAL FUND DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
General government (continued)				
Building maintenance				
Insurance	\$ 695	\$ 646	\$ 646	\$ -
Repair and maintenance	22,800	36,000	1,752	(34,248)
Utilities	8,000	8,000	7,651	(349)
Total building maintenance	31,495	44,646	10,049	(34,597)
Rental inspection				
Wages and benefits	13,378	13,378	13,528	150
Office supplies	200	200	257	57
Contractual services	3,750	7,500	7,378	(122)
Total rental inspection	17,328	21,078	21,163	85
Planning commission				
Wages and benefits	915	915	850	(65)
Supplies	100	100	-	(100)
Contractual services	50,000	35,000	44,633	9,633
Transportation and conferences	200	75	435	360
Printing and publishing	600	400	575	175
Total planning commission	51,815	36,490	46,493	10,003
Total general government	443,521	440,762	411,258	(29,504)
Public safety				
Police department				
Salaries, wages and benefits	656,795	647,883	685,581	37,698
Supplies	6,000	3,500	3,133	(367)
Clothing	4,750	4,750	3,146	(1,604)
Liquor control	6,300	6,300	6,641	341
Contractual services	9,000	9,000	9,703	703
Telephone	6,900	6,900	6,228	(672)
Transportation and conferences	3,800	2,500	1,855	(645)
Insurance	12,005	13,330	13,330	-
Repair and maintenance	31,000	31,000	14,137	(16,863)
Utilities	6,000	3,700	3,607	(93)
Gas and oil	15,000	15,000	15,079	79
Training	2,500	2,500	953	(1,547)
Capital outlay	29,125	28,467	26,333	(2,134)
Other	1,600	1,600	248	(1,352)
Total police department	790,775	776,430	789,974	13,544

# CITY OF IMLAY CITY

## GENERAL FUND DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Public safety (continued)				
Fire department				
Salaries, wages and benefits	\$ 81,064	\$ 81,030	\$ 81,306	\$ 276
Supplies	3,000	3,000	1,753	(1,247)
Clothing	2,000	2,000	1,352	(648)
Extinguisher recharges	1,200	1,200	1,605	405
Contractual services	2,000	2,000	2,402	402
Telephone	1,500	1,500	2,026	526
Transportation and conferences	1,000	1,000	569	(431)
Insurance	7,000	7,000	5,969	(1,031)
Repair and maintenance	28,750	28,750	15,859	(12,891)
Utilities	6,300	7,850	8,417	567
Gas and oil	2,500	3,000	2,832	(168)
Training	5,000	5,000	3,301	(1,699)
Capital outlay	28,000	28,000	27,378	(622)
Other	6,700	4,200	2,154	(2,046)
Total fire department	176,014	175,530	156,923	(18,607)
Lapeer County EMS	7,107	7,107	7,107	-
Total public safety	973,896	959,067	954,004	(5,063)
Public works				
Wages and benefits	171,900	171,735	160,978	(10,757)
Supplies	6,000	6,000	7,896	1,896
Clothing	3,900	3,900	4,013	113
Contracted services	20,000	8,000	6,374	(1,626)
Garbage collection	90,770	93,900	92,658	(1,242)
Telephone	2,400	2,400	2,871	471
Transportation and conferences	1,000	1,000	827	(173)
Printing and publishing	200	200	128	(72)
Insurance	1,280	1,280	1,110	(170)
Utilities	47,250	47,250	61,296	14,046
Repairs and maintenance	12,700	5,200	3,799	(1,401)
Rent	30,000	30,000	26,757	(3,243)
Capital outlay	155,000	25,000	43,359	18,359
Other	2,000	1,000	122	(878)
Total public works	544,400	396,865	412,188	15,323

# CITY OF IMLAY CITY

## GENERAL FUND DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Recreational and culture				
Wages and benefits	\$ 61,547	\$ 61,547	\$ 61,808	\$ 261
Supplies	10,000	10,000	9,383	(617)
Contractual services	5,000	3,000	2,425	(575)
Telephone	400	400	252	(148)
Transportation and conferences	-	-	91	91
Insurance	1,690	1,718	1,430	(288)
Utilities	3,100	3,100	3,006	(94)
Repairs and maintenance	500	500	1,602	1,102
Rent	16,000	16,000	18,577	2,577
Capital outlay	25,000	113,500	116,100	2,600
Other	200	2,600	2,544	(56)
5K race	-	2,898	2,898	-
Total recreational and cultural	123,437	215,263	220,116	4,853
Debt service				
Principal	31,011	31,011	31,011	-
Interest and fiscal charges	3,198	3,198	3,198	-
Total debt service	34,209	34,209	34,209	-
Insurance	8,000	10,500	11,500	1,000
Total expenditures	2,295,753	2,634,114	2,399,165	(234,949)
Other financing uses - transfers out	34,850	34,209	34,209	-
Total expenditures and other financing uses	\$ 2,330,603	\$ 2,668,323	\$ 2,433,374	\$ (234,949)



**CITY OF IMLAY CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

	Special Revenue Funds			
	LOCAL STREETS	INDUSTRIAL PARK DEVELOPMENT	DRUG FORFEITURE	INDUSTRIAL PARK REVOLVING LOAN
Assets				
Cash	\$ 58,722	\$ 5,817	\$ 3,187	\$ 3,120
Investments	90,000	80,804	4,000	15,222
Accounts receivable	-	-	-	31,536
Prepaid	200	-	-	-
Due from other governmental units	4,864	-	-	-
Total assets	<u>\$ 153,786</u>	<u>\$ 86,621</u>	<u>\$ 7,187</u>	<u>\$ 49,878</u>
Liabilities and fund equity				
Liabilities				
Accounts payable	\$ 59,580	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	31,536
Total liabilities	<u>59,580</u>	<u>-</u>	<u>-</u>	<u>31,536</u>
Fund equity				
Unreserved:				
Undesignated	<u>94,206</u>	<u>86,621</u>	<u>7,187</u>	<u>18,342</u>
Total fund equity	<u>94,206</u>	<u>86,621</u>	<u>7,187</u>	<u>18,342</u>
Total liabilities and fund equity	<u>\$ 153,786</u>	<u>\$ 86,621</u>	<u>\$ 7,187</u>	<u>\$ 49,878</u>

Debt Service Funds		
2005 GENERAL OBLIGATION BONDS	GENERAL OBLIGATION UNLIMITED TAX BONDS	TOTAL
\$ -	\$ 7	\$ 70,853
-	-	190,026
-	-	31,536
-	-	200
-	-	4,864
<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 297,479</u>
\$ -	\$ -	\$ 59,580
-	-	31,536
-	-	91,116
-	7	206,363
-	7	206,363
<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 297,479</u>

**CITY OF IMLAY CITY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	Special Revenue Funds			
	LOCAL STREETS	INDUSTRIAL PARK DEVELOPMENT	DRUG FORFEITURE	INDUSTRIAL PARK REVOLVING LOAN
Revenues				
Gas and weight tax	\$ 59,941	\$ -	\$ -	\$ -
Drug forfeitures	-	-	3,239	-
Loan repayments	-	-	-	3,464
Interest	773	3,678	22	1,170
Other	113	-	-	-
Total revenues	60,827	3,678	3,261	4,634
Expenditures				
Public works	106,756	-	-	35,174
Debt service				
Principal	-	19,679	-	-
Interest	-	-	-	-
Total expenditures	106,756	19,679	-	35,174
Revenues over (under) expenditures	(45,929)	(16,001)	3,261	(30,540)
Other financing sources (uses)				
Transfers in	50,000	-	-	-
Transfers out	(29,115)	-	-	(2,000)
Total other financing sources (uses)	20,885	-	-	(2,000)
Net change in fund balances	(25,044)	(16,001)	3,261	(32,540)
Fund balances, beginning of year	119,250	102,622	3,926	50,882
Fund balances, end of year	\$ 94,206	\$ 86,621	\$ 7,187	\$ 18,342

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Debt Service Funds		
2005 GENERAL OBLIGATION BONDS	GENERAL OBLIGATION UNLIMITED TAX BONDS	TOTAL
\$ -	\$ -	\$ 59,941
-	-	3,239
-	-	3,464
-	-	5,643
-	-	113
-	-	72,400
-	-	141,930
60,000	60,000	139,679
48,438	10,178	58,616
108,438	70,178	340,225
(108,438)	(70,178)	(267,825)
107,297	69,700	226,997
(641)	-	(31,756)
106,656	69,700	195,241
(1,782)	(478)	(72,584)
1,782	485	278,947
\$ -	\$ 7	\$ 206,363

# CITY OF IMLAY CITY

## LOCAL STREETS SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Intergovernmental revenue				
Gas and weight tax	\$ 62,843	\$ 61,537	\$ 59,941	\$ (1,596)
Interest	900	1,325	773	(552)
Other	25	55	113	58
Total revenues	63,768	62,917	60,827	(2,090)
Expenditures				
Routine maintenance	46,590	34,865	83,039	48,174
Winter maintenance	26,552	24,650	18,042	(6,608)
Administration	4,600	4,437	4,654	217
Traffic services	2,342	2,292	831	(1,461)
Construction	408,048	-	190	190
Total expenditures	488,132	66,244	106,756	40,512
Revenues over (under) expenditures	(424,364)	(3,327)	(45,929)	(42,602)
Other financing sources (uses)				
Transfer in	50,000	50,000	50,000	-
Transfer out	(31,182)	(29,115)	(29,115)	-
Total other financing sources (uses)	18,818	20,885	20,885	-
Net change in fund balance	(405,546)	17,558	(25,044)	(42,602)
Fund balance, beginning of year	119,250	119,250	119,250	-
Fund balance (deficit), end of year	\$ (286,296)	\$ 136,808	\$ 94,206	\$ (42,602)

# CITY OF IMLAY CITY

## INDUSTRIAL PARK DEVELOPMENT SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

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	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Interest	\$ 2,500	\$ 3,625	\$ 3,678	\$ 53
Expenditures				
Debt service	19,679	19,679	19,679	-
Net change in fund balance	(17,179)	(16,054)	(16,001)	53
Fund balance, beginning of year	102,622	102,622	102,622	-
Fund balance, end of year	<u>\$ 85,443</u>	<u>\$ 86,568</u>	<u>\$ 86,621</u>	<u>\$ 53</u>

# CITY OF IMLAY CITY

## DRUG FORFEITURE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

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	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Drug forfeitures	\$ 200	\$ 2,000	\$ 3,239	\$ 1,239
Interest	-	-	22	22
Total revenues	200	2,000	3,261	1,261
Fund balance, beginning of year	3,926	3,926	3,926	-
Fund balance, end of year	<u>\$ 4,126</u>	<u>\$ 5,926</u>	<u>\$ 7,187</u>	<u>\$ 1,261</u>

# CITY OF IMLAY CITY

## INDUSTRIAL PARK REVOLVING LOAN SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

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	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Repayments	\$ -	\$ -	\$ 3,464	\$ 3,464
Interest	500	1,950	1,170	(780)
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	500	1,950	4,634	2,684
Expenditures				
Public works	155	119	35,174	35,055
	<hr/>	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	345	1,831	(30,540)	(32,371)
Other financing uses				
Transfer out	(2,000)	(2,000)	(2,000)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	(1,655)	(169)	(32,540)	(32,371)
Fund balance, beginning of year	50,882	50,882	50,882	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 49,227</u>	<u>\$ 50,713</u>	<u>\$ 18,342</u>	<u>\$ (32,371)</u>



**CITY OF IMLAY CITY**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

	MOTOR POOL	INSURANCE	TOTAL
Assets			
Current assets			
Cash	\$ 17,990	\$ 468	\$ 18,458
Investments	50,367	-	50,367
Prepaid	200	-	200
Total current assets	<u>68,557</u>	<u>468</u>	<u>69,025</u>
Capital assets			
Machinery and equipment	803,892	-	803,892
Less accumulated depreciation	<u>(569,543)</u>	<u>-</u>	<u>(569,543)</u>
Total capital assets	<u>234,349</u>	<u>-</u>	<u>234,349</u>
Total assets	<u>302,906</u>	<u>468</u>	<u>303,374</u>
Current liabilities			
Accounts payable	1,171	-	1,171
Current portion - installment purchase	<u>3,758</u>	<u>-</u>	<u>3,758</u>
Total current liabilities	4,929	-	4,929
Long-term liabilities			
Installment purchase	<u>16,231</u>	<u>-</u>	<u>16,231</u>
Total liabilities	<u>21,160</u>	<u>-</u>	<u>21,160</u>
Net Assets			
Invested in capital assets, net of related debt	214,360	-	214,360
Unrestricted	<u>67,386</u>	<u>468</u>	<u>67,854</u>
Total net assets	<u>\$ 281,746</u>	<u>\$ 468</u>	<u>\$ 282,214</u>

# CITY OF IMLAY CITY

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

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	MOTOR POOL	INSURANCE	TOTAL
Operating revenues			
Charges for services	\$ 88,045	\$ 18,353	\$ 106,398
Expenditures			
Wages and benefits	48,706	-	48,706
Supplies	4,999	-	4,999
Gas and oil	11,963	-	11,963
Miscellaneous	1,089	-	1,089
Repair and maintenance	12,974	-	12,974
Depreciation	42,116	-	42,116
Insurance	6,662	19,665	26,327
Total expenditures	128,509	19,665	148,174
Operating income (loss)	(40,464)	(1,312)	(41,776)
Nonoperating revenues			
Interest	2,328	17	2,345
Change in net assets	(38,136)	(1,295)	(39,431)
Net assets, beginning of year	319,882	1,763	321,645
Net assets, end of year	\$ 281,746	\$ 468	\$ 282,214

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**CITY OF IMLAY CITY**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	MOTOR POOL	INSURANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from interfund services	\$ 88,045	\$ 18,353	\$ 106,398
Cash payments to employees	(48,706)	-	(48,706)
Cash payments to suppliers for goods and services	(37,836)	(19,665)	(57,501)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,503	(1,312)	191
CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(44,230)	-	(44,230)
Proceeds from installment purchase agreement	19,989	-	19,989
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(24,241)	-	(24,241)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of investments	29,788	-	29,788
Interest on investments	2,328	17	2,345
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	32,116	17	32,133
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,378	(1,295)	8,083
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,612	1,763	10,375
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 17,990	\$ 468	\$ 18,458
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ (40,464)	\$ (1,312)	\$ (41,776)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	42,116	-	42,116
Changes in operating assets and liabilities which provided (used) cash:			
Prepaid expenses	(200)	-	(200)
Accounts payable	51	-	51
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,503	\$ (1,312)	\$ 191

# CITY OF IMLAY CITY

## DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT STATEMENT OF NET ASSETS AND BALANCE SHEET

**JUNE 30, 2006**

	DDA	ADJUSTMENTS	STATEMENT OF NET ASSETS
Assets			
Cash	\$ 220,910	\$ -	\$ 220,910
Investments	140,916	-	140,916
Accounts receivable	15	-	15
Depreciable capital assets, net	-	720,409	720,409
Total assets	<u>\$ 361,841</u>	<u>720,409</u>	<u>1,082,250</u>
Liabilities and fund balance			
Liabilities			
Accounts payable	\$ 6,186	-	6,186
Installment contract			
Due within one year	-	63,798	63,798
Due in more than one year	-	656,611	656,611
Total liabilities	<u>6,186</u>	<u>720,409</u>	<u>726,595</u>
Fund balance			
Undesignated	<u>355,655</u>	<u>(355,655)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 361,841</u>		
Net Assets			
Unrestricted		<u>355,655</u>	<u>355,655</u>
Total net assets		<u>\$ 355,655</u>	<u>\$ 355,655</u>

# CITY OF IMLAY CITY

## DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	DDA	ADJUSTMENTS	STATEMENT OF ACTIVITIES
Revenues			
Property taxes	\$ 293,835	\$ -	\$ 293,835
Intergovernmental			
Federal grants	168,672	-	168,672
Interest	10,806	-	10,806
Other	10,855	-	10,855
	<u>484,168</u>	<u>-</u>	<u>484,168</u>
Total revenues			
	<u>484,168</u>	<u>-</u>	<u>484,168</u>
Expenditures			
Wages and benefits	38,879	-	38,879
Supplies	1,450	-	1,450
Postage	1,158	-	1,158
Professional services	73,222	-	73,222
Repair and maintenance	940	-	940
Telephone	1,022	-	1,022
Transportation and conferences	1,654	-	1,654
Community promotion	4,568	-	4,568
Utilities	802	-	802
Beuatification	78,491	-	78,491
Miscellaneous	23,511	-	23,511
Contractual services	7,500	-	7,500
Capital outlay	720,409	(720,409)	-
	<u>953,606</u>	<u>(720,409)</u>	<u>233,197</u>
Total expenditures			
	<u>953,606</u>	<u>(720,409)</u>	<u>233,197</u>
Revenues over (under) expenditures / operating income (loss)	(469,438)	720,409	250,971
Other financial sources			
Proceeds from installment contract	720,409	(720,409)	-
	<u>720,409</u>	<u>(720,409)</u>	<u>-</u>
Net change in fund balance / change in net assets	250,971	-	250,971
Fund balance / net assets, beginning of year	104,684	-	104,684
	<u>104,684</u>	<u>-</u>	<u>104,684</u>
End of year	<u>\$ 355,655</u>	<u>\$ -</u>	<u>\$ 355,655</u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 24, 2006

To the City Commission  
City of Imlay City  
Imlay City, Michigan

In planning and performing our audit of the financial statements of the *City of Imlay City* for the year ended June 30, 2006, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of a several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated August 24, 2006, on the financial statements of the *City of Imlay City*.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of this matter, or to assist you in implementing the recommendations.

# **CITY OF IMLAY CITY**

## **COMMENTS AND RECOMMENDATIONS**

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### **1) Review and Approval of Journal Entries**

The City posts adjusting journal entries to its general ledger accounting system to record various financial activity, including EFT receipts from funding sources, accruals, interest earnings, correcting entries, etc. The City's current internal control procedures do not require that journal entries are to be reviewed and approved before posting to the general ledger. We observed no indications that the journal entries were approved by a responsible individual before being posted to the general ledger.

We also noted during our audit that the City does not attach the supportive documentation for each of the journal entries with a printed copy of the journal entry from the City's general ledger. This printed copy indicates the sequential journal entry number and the individual who posted the journal entry to the general ledger. We noted that the support for the journal entry was located in a separate file with no indication of the journal entry for which the documentation was supporting.

#### **Recommendation:**

The City should adopt and enforce a policy that requires that all adjusting journal entries are reviewed and indication of approval by a responsible official noted on the journal entry, prior to being posted to the general ledger.

The City should also attach journal entries and the corresponding supportive documentation together and have these maintained in the same location.

Currently, the City has three individuals that are allowed to post journal entries to the general ledger, the City Manager, City Clerk/Treasurer and the bookkeeper. We recommend that the City Manager should not have the ability to post journal entries to the general ledger. Although very capable to perform this function, a limited number of individuals with the authorization to post to the general ledger is an effective internal control procedure.

# **CITY OF IMLAY CITY**

## **COMMENTS AND RECOMMENDATIONS**

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### **2) Accounts Payable**

During our audit procedures we noted that at June 30, 2006 the pooled cash account had \$213,418 of outstanding checks in comparison to the July 31, 2006 pooled cash account which had \$18,709 of outstanding checks. Upon further examination of the outstanding checks at June 30, we noted that a majority of these checks were dated June 30, 2006. Our understanding of the reason for this was to decrease the accounts payable balance at June 30, 2006.

#### **Recommendation:**

Although a decrease in the accounts payable balance and a decrease in the cash balance has no net effect on the ending equity of the City, we recommend that checks should not be produced just to reduce the accounts payable balance at year end. The City has procedures in place that dictate when a check run is to be performed. These procedures should be followed throughout the entire fiscal year. With a severe number of checks being produced at year end, this causes the outstanding check list to be larger than what it should be. This results in an increase in the time and effort involved in reconciling the pooled cash account.